

**Minutes (Draft) of the
Cash Management Advisory Board
August 30, 2017
Via Telephone Conference Call**

Attendees:

William Desautelle, CMAB Member
J. Victor Thompson, CMAB Member
Lawrence Wilson, Assistant Treasurer, Cash Management
Michael Terry, Principal Investment Officer, STIF
Paul Coudert, Investment Officer, STIF
Peter Gajowiak, Securities Analyst, STIF

Minutes:

Assistant Treasurer Lawrence Wilson called the meeting to order at 10:06 a.m.

The minutes of the April 26, 2017 meeting were approved unanimously.

Mr. Terry stated that as expected, the Federal Reserve raised interest rates at their meeting in June. Currently, according to Mr. Terry, the market is giving approximately a 33% chance of the Fed raising rates again in December. However, Mr. Terry believes the market may be too complacent and as a result has moved STIF into somewhat of a defensive posture by purchasing floating rate securities rather than long fixed rate securities. STIF continues to purchase short dated commercial paper as well as certificates of deposit.

Mr. Desautelle asked if what seems to be a narrowing of the spread between the money market industry and STIF is normal. Mr. Terry stated that STIF is managed much more conservatively, does not purchase asset-back commercial paper, and is consistently contributing 10 basis points to its reserve.

Mr. Thompson asked what type of collateral is in asset-backed commercial paper. Mr. Terry stated that much of the collateral is made up of revolving credit card and automobile loans and pays about ten basis points more than regular commercial paper STIF currently purchases.

Mr. Desautelle asked if the falling dollar would put pressure on the Fed to raise interest rates. Mr. Terry agreed and speculated that the U.S. should be attracting capital as a result.

Mr. Desautelle expressed concern about STIF's ability to take advantage of rate increases due to higher levels of liquidity. Mr. Desautelle added that with the size of the fund increasing, the expense ratio should be decreasing. Mr. Desautelle stated that there should be a discussion about the ten basis point reserve as it is taking away from the yield of the fund. Mr. Wilson stated that reserves earn income. Mr. Wilson added that in the past year, STIF was given the ability to both add credit and increase its average life.

Mr. Desautelle asked if the level of municipal deposits had been steady over the past year. Mr. Gajowiak stated that municipalities account for 20 percent of the fund which is where they have been historically.

Mr. Terry stated that at \$7 billion, if STIF were to increase its average life and the fund was to decline significantly, liquidity would be impacted.

Mr. Thomson asked if the liquidity in the Libor market was stable. Mr. Terry replied that the Libor market was stable and liquid, but that Libor would disappear in a few years.

Mr. Coudert gave an overview of the STIF's portfolio characteristics and performance. Mr. Coudert stated that for the period ending June 30, 2017, STIF earned an average annualized yield of 86 basis points versus 81 basis points for the iMoneyNet benchmark. For the one year period ending June 30, 2017, STIF earned 61 basis points versus 50 basis points for the benchmark. According to Mr. Coudert, STIF's current yield is 1.06 percent with an average life of 34 days. Mr. Coudert added that STIF reserves now total \$57.2 million with nearly \$4.7 million having been added in the 2017 fiscal year. Daily liquidity is approximately \$3.0 billion or 43% of the fund, and more than 34 percent of the portfolio is invested in securities with some sort of government support such as government backed repurchase agreements, agency securities, FDIC insured deposits, Federal Home Loan Bank letters of credit, and government money funds.

Mr. Coudert stated the Extended Investment portfolio has assets of \$379 million earning 1.15 percent with an average life of three days.

Mr. Thompson asked how big the EIP portfolio is expected to grow. Mr. Wilson stated that it is capped at \$900 million. Mr. Wilson added that STIF may continue to grow with future bond sales.

Mr. Wilson stated that STIF is in the process of hiring a new individual to replace Barbara Szuba.

With no further business, Mr. Wilson adjourned the meeting at 10:39 a.m.